Parking Facilities Fund
An Enterprise Fund of the City of Norfolk, Virginia

Financial and Compliance Report
Year Ended June 30, 2014

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Contents

KPMG LLP
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Independent Auditors' Report

The Honorable Members of the City Council
City of Norfolk, Virginia:

Report on the Financial Statements

We have audited the accompanying statement of net position of the Parking Fund of the City of Norfolk, Virginia (the Fund), as of and for the year ended June 30, 2014, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, which collectively comprise the Fund's basic financial statements as listed in the accompanying table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Specifications for Audits of Counties, Cities and Towns* (Specifications), issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Parking Fund of the City of Norfolk, Virginia, as of June 30, 2014, and the respective changes in financial position, and cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in note 1 to the basic financial statements, the accompanying financial statements present only the Parking Fund and do not purport to, and do not present fairly the financial position of the City of Norfolk, Virginia, the changes in its financial position or its cash flows, where applicable, in conformity with the U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

As discussed in note 1 to the basic financial statements, in fiscal year 2014, the Fund adopted new accounting guidance described in Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that management's discussion and analysis on pages 3 through 7, the Supplemental Other Post-Employment Benefits (OPEB) Information – Schedule of Funding Progress on page 25 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2015 on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

KPMG LLP

Norfolk, Virginia
January 29, 2015

Management's Discussion and Analysis (Unaudited)

The following discussion and analysis of The Parking Facilities Fund of the City of Norfolk, Virginia's (the "Fund") financial performance provides an overview of the Fund's financial activities for the fiscal year ended June 30, 2014.

The Fund was established in fiscal year 1990 as an Enterprise Fund. The fund accounts for the operation of City-owned parking facilities, including operations, on- street parking enforcement, maintenance, finance, debt service, and billing and collection. Although separate financial statements are presented for the Fund, it is also included in the City of Norfolk's Comprehensive Annual Financial Report as an Enterprise Fund.

The Fund owns and operates 15 multi-level parking garages, 9 surface lots, and 670 on-street spaces. These facilities provide a total inventory of 19,944 or 80% of the total 25,044 downtown parking spaces allocated as follows:

Off-Street parking	Spaces
Monthly parking	12,959
Daily parking	4,946
Restricted parking	1,369
Sub-total: Off-street	19,274
On-Street spaces	670
Total public parking spaces	19,944
Total private parking spaces	5,100
Total downtown parking spaces	25,044

General obligation debt issued to finance the Fund's capital projects is carried as a liability on the Parking Fund Statement of Net Position. The Parking Division provides the funds for debt service on such bonds. At June 30, 2014, there was $141.9 million in general obligation debt assigned to the Parking Fund. During fiscal year 2014, all Parking Revenue Bonds were defeased.

Financial Highlights for the Fiscal Year 2014

The Fund statements are reported on a full accrual basis as required by GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments.*

- For the fiscal year ended June 30, 2014, the Fund has reported total operating revenues of $20,413,621, which represents an increase of 7% from fiscal year 2013 revenues.
- The Fund's total operating expenses for fiscal year 2014 were $15,383,064, an increase of $354,344 from fiscal year 2013 operating expenses of $15,028,720.
- During fiscal year 2014 the Fund had a restatement of the beginning net position of $1,239,690 related to the adoption of Governmental Accounting Standards Board (GASB 65). The fiscal year 2013 comparative statements have not been restated for purposes of this management's disclosure and analysis. As a result of this adoption, the Fund also reclassified a loss on debt refunding that was previously recorded as part of bonds payable as a deferred outflow of resources of $2,217,333 at July 1, 2013.
- The total net position at June 30, 2014 was $47,167,266. Total net position is defined as total assets and deferred outflow of resources less total liabilities and deferred inflows of resources. For the fiscal year ended June 30, 2014 the Fund's total net position included net investment in capital assets of $27,869,052, restricted net position of $6,919,010, and unrestricted net position of $12,379,204.
- At the close of fiscal year 2014, the Fund's total cash and short-term investments were $29,754,412.
- For fiscal year ended June 30, 2014, the Fund had outstanding bonds payable of $146,438,885.

The following financial analysis provides insight into the factors that had a significant impact on the variance between fiscal years 2014 and 2013.

The following table provides a summary of the Fund's net position as of June 30, 2014 and 2013.

Summary of Net Position	2014	2013	Change	% Change
Current and Other Assets	$32,070,681	$38,522,137	(6,451,456)	-17%
Capital assets, net of depreciation	163,119,078	167,802,989	(4,683,911)	-3%
Deferred Outflows of Resources	2,958,440	0	2,958,440	0%
Total Assets and Deferred Outflows of Resources	$198,148,199	$206,325,126	($8,176,927)	-4%
Current Liabilities	$7,021,763	$69,691,996	(62,670,233)	-90%
Long-term liabilities	$143,959,170	$85,286,928	58,672,242	69%
Total Liabilities and Deferred Inflows	$150,980,933	$154,978,924	($3,997,991)	-3%
Net Position				
Net Investment in Capital Assets	$27,869,052	$32,577,980	(4,708,928)	-14%
Restricted	6,919,010	2,244,554	4,674,456	208%
Unrestricted	12,379,204	16,523,668	(4,144,464)	-25%
Total Net Position	$47,167,266	$51,346,202	(4,178,936)	-8%

Overall, total Net Position decreased by approximately $4.18 million. The decrease was a result of the negative change in net position in the fiscal year ended June 30, 2014 of approximately $2.94 million and a restatement of the beginning fund balance of $1.24 million for implementation of GASB 65. During fiscal year 2014, the previously issued General Obligation Bond Anticipation Notes (BANS), as well as the Parking Revenue Bond debt were defeased with General Obligation Bonds. In addition, existing debt was refunded to take advantage of lower interest rates. This refinancing affected the Fund's restricted cash, accrued expenses, and debt outstanding.

The following table provides a summary of the changes in revenues, expenses, and net position for the years ended June 30, 2014 and 2013.

Summary of Revenues, Expenses, and Change in Net Position	2014	2013	Change	% Change
Operating Revenues	$20,413,621	$19,162,104	$1,251,517	7%
Operating Expenses	15,383,064	15,028,720	354,344	2%
Operating Income	5,030,557	4,133,384	897,173	22%
Non-operating revenues	$381,136	$148,428	$232,708	157%
Non-operating expenses	(8,350,939)	(5,645,155)	(2,705,784)	48%
Non-operating revenues and expenses	(7,969,803)	(5,496,727)	(2,473,076)	45%
Change in net position	($2,939,246)	($1,363,343)	($1,575,903)	116%
Net Position - beginning, as previoulsy reported	$51,346,202	$52,709,545		
Effect of implementation of GASB 65	(1,239,690)	-		
Net Position - beginning, as restated	$50,106,512	$52,709,545		
Total Net Position, ending	$47,167,266	$51,346,202		

The fiscal year 2014 revenue increase over fiscal year 2013 revenue was primarily attributable to the adjustment to short-term system rates (excluding the two MacArthur Garages), meter rates, and parking violation fees.

There were no short-term rate adjustments to the two MacArthur Garage rates in fiscal year 2014.

Monthly rates were not adjusted in fiscal year 2014. Monthly unreserved parking rate structure varies from $43/month to $95.20/month depending on proximity to Downtown Norfolk

The increase in non-operating expenses is due to costs of issuance and refunding of debt.

Due to the previously discussed change in debt structure, the Fund will experience an overall reduction in interest expense for future years.

The Fund had rate adjustments in short-term, metered and parking violations revenue. The change in interest revenue, in addition to operating investments, was effected by the recording of interest associated with bond-related reserve accounts utilized in the permanent financing of the BANS and the defeased revenue bonds with general obligation bonds.

Capital Assets	2014	2013
Land	$35,952,094	$35,952,094
Buildings	189,824,206	189,466,186
Equipment	5,874,659	5,527,597
Construction in progress	452,293	200,601
Total Capital Assets	$232,103,252	$231,146,478
Less: Accumulated Depreciation	($68,984,174)	($63,343,489)
Capital Assets less accumulated depreciation	$163,119,078	$167,802,989

The Fund's net capital assets of $163.1 million accounted for 82% of total assets at June 30, 2014. Additional information on the Fund's capital assets can be found in Note 3 of the financial statements.

Debt	2014	2013
Revenue Bonds	$0	$76,728,343
General Obligation Bonds	$146,438,885	$74,296,754
Total	$146,438,885	$151,025,097

For fiscal year 2014, the Fund had outstanding bonds payable of $146.4 million. Additional information on the Fund's debt can be found in Note 5 of the financial statements.

Future Outlook - The Fund continues to support the City of Norfolk's long term objective of being a well-managed government and strives to enhance the quality of life by providing excellent parking services at the best value to the City's customers.

Parking Facilities Fund
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Statement of Net Position
June 30, 2014

		2014
Assets		
Current assets:		
Cash and short term investments (Note 2)	$	11,916,713
Unrestricted short term investments (Note 2)		2,688,269
Restricted short term investments (Note 2)		15,149,430
Receivables:		
Billed (net)		1,742,298
Unbilled		251,540
Accrued Investment Income		11
Inventories		322,420
Total current assets		32,070,681
Capital assets (Note 3):		
Non-depreciable assets		36,404,387
Depreciable assets, net		126,714,691
		163,119,078
Total assets	$	195,189,759
Deferred Outflow of Resources	$	2,958,440
Total assets and deferred outflow of resources	$	198,148,199
Liabilities		
Current liabilities:		
Vouchers payable	$	742,387
Contract retainage		1,014
Accrued payroll		62,017
Contribution to Employees Retirement System (Note 6)		491,057
Current portion of bonds payable (Note 5)		3,235,566
Accrued interest		2,212,799
Other liabilities		172,211
Compensated absences		104,712
Total current liabilities		7,021,763
Noncurrent liabilities:		
General obligation bonds payable (Note 5)		143,203,319
Revenue bonds payable (Note 5)		-
Post employment benefits (OPEB) (Note 6)		605,167
Compensated absences		150,684
Total noncurrent liabilities		143,959,170
Total liabilities		150,980,933
Net Position		
Net investment in capital assets		27,869,052
Restricted		6,919,010
Unrestricted		12,379,204
Total net position	$	47,167,266

See Notes to Financial Statements.

Parking Facilities Fund
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Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2014

		2014
Operating revenue-		
Charges for services	$	20,413,621
Operating expenses:		
Personnel services		7,130,975
Parking operations		1,275,320
Depreciation		5,647,165
Retirement contribution		491,057
Administrative expenses		370,050
Other		468,497
Total operating expenses		15,383,064
Operating income		5,030,557
Nonoperating revenues (expenses):		
Investment income		380,915
Interest expense and fiscal charges		(8,293,964)
Other non-operating income-contributions		221
Loss on sale or disposal of capital assets		(5,060)
Payments to General Fund		(51,915)
Total nonoperating expenses, net		(7,969,803)
Change in net position		(2,939,246)
Net position:		
Total net position - beginning, as previously reported		51,346,202
Adoption of GASB 65 (Note 1)		(1,239,690)
Total net position - beginning, as restated		50,106,512
Total net position - end	$	47,167,266

See Notes to Financial Statements.

Parking Facilities Fund
An Enterprise Fund of the City of Norfolk, Virginia

Statement of Cash Flows
Year Ended June 30, 2014

	2014
Cash Flows From Operating Activities:	
Receipts from customers	$ 19,984,461
Payments to suppliers	(657,867)
Payments to employees	(7,704,816)
Other payments/receipts	(737,588)
Net cash provided by operating activities	10,884,190
Cash Flows From Noncapital Financing Activities:	
Internal activity, payments from other funds	(10,003)
Transfer out	(51,915)
Net cash used in noncapital financing activities	(61,918)
Cash Flows From Capital and Related Financing Activities:	
Proceeds from capital/refunding debt	132,055,000
Purchases of capital assets	(967,491)
Refunding/Refinancing of debt principal	(142,093,155)
Principal paid on capital debt	(1,131,124)
Interest paid on capital debt	(5,877,516)
Net cash used in capital and related financing activities	(18,014,286)
Cash Flows From Investing Activities:	
Proceeds from sales and maturities of investments	7,569,889
Purchase of investments	(4,676,971)
Interest and dividends	386,911
Net cash provided by investing activities	3,279,829
Net decrease in cash and short term investments	(3,912,185)
Cash and short term investments:	
Beginning	15,828,898
End	$ 11,916,713

Parking Facilities Fund
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Statement of Cash Flows (Continued)
Year Ended June 30, 2014

		2014
Reconciliation of Operating Income to Net Cash and Short Term Investments Provided by Operating Activities:		
Operating income	$	5,030,557
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense		5,647,165
Change in assets and liabilities:		
(Increase) Decrease in:		
Accounts receivables (net), billed and unbilled		(421,943)
Inventories		62,521
Increase (Decrease) in:		
Vouchers payables		554,932
Accrued payroll		(82,784)
Other liabilities		93,742
Net cash provided by operating activities	$	10,884,190

Supplemental Schedule of Noncash Investing, Capital and Financing Activities		
Loss on disposal of capital assets	$	(5,060)
Acquisition of capital assets through the change in contract retainage	$	(823)
Acquisition of capital assets through the change in vouchers payable	$	(554,932)

See Notes to Financial Statements.

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

The Parking Facility Fund (the "Fund") was established at the direction of Norfolk City Council as an enterprise fund on July 1, 1990. The Fund accounts for the operation of City of Norfolk (City) owned parking facilities, including operations, maintenance, financing and related debt service, and billing and collection. The cost of providing services on a continuing basis is financed or recovered through parking charges to the City's residents and nonresidents. Although separate financial statements have been presented for the Fund, it is also included in the City of Norfolk's Comprehensive Annual Financial Report as a major Enterprise Fund. These financial statements are those of the Fund and not of the City of Norfolk, Virginia as a whole.

A summary of the Fund's significant accounting policies follows:

Basis of accounting: The accounting policies of the Fund are based upon accounting principles generally accepted in the United States of Americas as prescribed by the Governmental Accounting Standards Boards (GASB). The financial statements are presented on the accrual-basis of accounting, wherein revenues are recognized in the accounting period in which it is earned and expenses are recognized in the accounting period in which the related liabilities are incurred.

New Accounting Standards Adopted: In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. The Fund has adopted this statement retrospectively in fiscal year 2014. In connection with the adoption of GASB Statement No. 65, the Fund's deferred loss on the refunding of debt has been reclassified from long-term liabilities to deferred outflow of resources on the statement of net position. In addition, bond issuance costs are expensed and no longer amortized annually. The effect of adoption of GASB 65 is the reduction of beginning net position by $1,239,690.

Net Position	FY 2014
Total net position - beginning, as previously reported	$51,346,202
Adoption of GASB 65	(1,239,690)
Total net position - beginning, as restated	$50,106,512

The new standard requires the disclosure of gain and loss on defeasance as deferred inflows and outflows. The reclassified amount for the Fund is $2,217,333 at July 1, 2013.

Deposits and investments: The Fund's cash and short-term investments include cash on hand, demand deposits, and short-term investments with original maturities of one year or less from the date of acquisition. Investments of the Fund are stated at fair value. Short-term investments are recorded at cost, which approximates fair value. The fair value of the State Treasurer's Local Government Investment Pool (LGIP) is the same as the value of the pool shares. The LGIP is not registered with the Securities and Exchange Commission (SEC) as an investment company, but maintains a policy to operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. The external investment pool is administered by the Treasury Board of Virginia. Other investments are stated at their fair value. Securities traded on a national securities exchange are valued at the last reported sales price on the last business day of the fiscal year. Investments that do not have an established market are reported at estimated fair value, primarily net asset value determined based on the fair value of the underlying securities. These investments are reported in the accompanying financial statements as cash and short-term investments, unless the original maturity exceeded one year, in which case they are reported as investments.

The City uses the pooled cash investment method, as a result income from the investment of pooled cash is allocated to the various funds based on the percentage of cash and temporary investments of each fund to the total pooled cash and temporary investments. For purposes of the statement of cash flows, all highly liquid debt instruments and certificates of deposit are grouped into cash and short-term investments. The cash and investment pool discussed above is considered cash, since it has the same characteristics as a demand account.

Receivables: Unbilled accounts, net are estimated at each fiscal year end based on parking usage by customers for whom billings have not yet been processed. Billed accounts are presented on a net basis and consist of the following at June 30, 2014:

Gross receivables	$11,399,798
Less: Allowance for doubtful accounts	(9,657,500)
Net receivables	$ 1,742,298

Inventories: Inventories are stated at the lower of cost (using the first-in, first-out method) or market.

Restricted assets: Certain unspent proceeds of the revenue bonds as well as certain resources set aside for their repayment are classified as restricted assets on the Statement of Net Position because they are maintained in separate bank accounts and their use is limited by applicable bond covenants

Capital assets: Capital assets are recorded at cost, less accumulated depreciation. Assets acquired prior to July 1985, for which historical cost records were not available, were appraised and valued at estimated historical cost by means of accepted price indexing methodology.

Depreciation: Depreciation is computed using the straight-line method over the following estimated useful lives:

	Years
Buildings and improvements	10 - 40
Furniture, fixtures and equipment	3 - 15

When an asset is retired or otherwise disposed of, the related cost and accumulated depreciation are eliminated from the accounts and any resulting gain or loss is reflected as non-operating revenue or expense.

Interest costs incurred on funds borrowed for construction projects are capitalized, net of interest earned on the temporary investment of the unexpended portion of those funds during the period of construction.

The Fund evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. A capital asset is generally considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. Impaired capital assets that will no longer be used by the Fund are reported at the lower of carrying value or fair value. Impairment losses on capital assets that will continue to be used by the Fund are measured using the method that best reflects the diminished service utility of the capital asset. Any insurance recoveries received as a result of impairment events or changes in circumstances resulting in the impairment of a capital asset are netted against the impairment loss.

Compensated absences: It is the Fund's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Vacation leave is fully vested when earned by Fund employees. Sick leave does not vest for Fund employees; however, upon retirement, Fund employees receive credit for each day of accumulated sick leave toward their pension benefit. There is no liability for unpaid accrued sick leave service since the Fund does not pay when the employee separates from service.

Net position: Net position in the financial statements is classified as net investment in capital assets, restricted; and unrestricted. Restricted net position represent constraints on resources that are either externally imposed by creditors, grantors, contributors, laws and regulations of other governments or imposed by law through state statutes.

Operating and non-operating revenues: The Fund reports as operating revenues all charges for services generated through parking fees and certain other miscellaneous revenues. Other revenues, including interest revenue and grants, are reported as non-operating.

Notes to Financial Statements

Due to/from other funds: The General Fund of the City provides administrative services to the Fund, which totaled $613,048 for the year ended June 30, 2014. Charges for these services are treated as expenses by the Fund.

Bond discount or premium: Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed in the period incurred. Loss on defeasance is reported as deferred outflows of resources in accordance with GASB 65 and is amortized using the straight line method over the term of the debt.

Deferred outflows/inflows: Deferred outflows represent the unamortized loss on bond refunding. Deferred inflows represent the unamortized gain on bond refunding. The City reports deferred inflows on its fund level balance sheet and entity wide statement of net position. Deferred inflow are items that were previously reported as deferred revenues and certain items that were previously recorded as assets and liabilities such as gains on defeasances of debt. Deferred inflows arise when potential revenue doesn't meet the "measureable" and "available" criteria for recognition in the current period. Certain intergovernmental receivables such as uncollected property tax not meeting the availability criteria have been deferred and will be realized in a subsequent period in governmental funds. There are no deferred inflows of resources on the Fund's June 30, 2014 statements.

A deferred outflow is a consumption of net position in a future period. The Fund reports the loss on defeasance from debt refundings as a deferred outflow.

Note 1. Summary of Significant Accounting Policies (Continued)

Use of estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2. Cash and Investments

Deposits: All cash of the Fund is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. seq. of the Code of Virginia or covered by federal depository insurance. Under the Act, any public depository that receives or holds public deposits ("Qualified Public Depositories") shall elect to secure deposits by either the Pooled Method or the Dedicated Method (which became available by amendments made to the Act effective July 1, 2010). The Pooled Method requires any public depository that receives or holds public deposits to pledge collateral, ranging from 50 to 100 percent of the public deposits, to the State Treasury Board to cover public deposits in excess of Federal deposit insurance. The Pooled Method also provides that if any member financial institution fails, the entire collateral pool becomes available to satisfy the claims of participating governmental entities. If the value of the pool's collateral were inadequate to cover a loss, additional amounts would be assessed on a pro rata bases to members of the pool. Under the Dedicated Method, Qualified Public Depositories are responsible for securing their own public deposits, by the pledge and deposit of eligible collateral with qualified escrow agent, equal to or in excess of required collateral amounts, priced at a minimum of 105% to 130% of all public deposits held by the bank, based on rating determined under the Act; and therefore will not be assessed for losses of another bank that is in default or has become insolvent. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks. Both methods of securing public deposits are similar to depository insurance. Funds deposited in accordance with the Act are considered to be fully insured. The City's primary banking institutions has elected to be governed by the Dedicated Method.

Investments: Statutes authorize the Fund to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development ("World Bank") and Asian Development Bank, the African Development Bank, commercial paper rated A-1 by Standard and Poor's or P-1 by Moody's Commercial Paper Record, banker's acceptances, repurchase agreements, and the State Treasurer's LGIP, certain mutual funds, corporate notes, asset-backed securities, and savings accounts or time deposits.

The Fund has no formal policy regarding credit risk, interest rate risk, concentration of credit risk, custodial credit risk, or foreign investment risk.

Certain cash and investments of the Fund are combined with other City Funds for investment purposes. These amounts are treated as cash because they have the same characteristics as a demand deposit account and are reflected as cash and short term investments in the accompanying statement of net position. These amounts were covered by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act. Reference should be made to the Comprehensive Annual Financial Report of the City of Norfolk for further cash and investment disclosures.

Note 2. Cash and Investments (Continued)

The Fund's investments for the year ended June 30, 2014 are categorized below to give an indication of the level of interest rate risk for each investment type by the entity at year-end.

Investment Type	2014 Fair Value Less than 1 Yr
LGIP Investments	$ 4,218,646
SNAP Money Market Mutual Fund	8,230,419
US Bank Money Market Mutual Fund	716,114
Total Short-term investments	$ 13,165,179
Restricted Cash	4,672,520
Total	$ 17,837,699

Reconciliation to amounts recorded on Statement of Net Position:

	2014
Unrestricted short-term investments	$ 2,688,269
Restricted cash and investment	15,149,430
Total Cash and Investments	$ 17,837,699

The Fund's rated debt investments, other than LGIP, as of June 30, 2014, were rated by Standard and Poor's and the credit ratings are presented below using the Standard and Poor's rating scale.

Investment Type	Total	AAAm	AAm-
LGIP Investments	$ 4,218,646	$ 4,218,646	$ -
SNAP Money Market Mutual Fund	8,230,419	$ 8,230,419	-
US Bank Money Market Mutual Fund	716,114	$ 387,886	$ 328,228
Total	$ 13,165,179	$ 12,836,951	$ 328,228

Note 3. Capital Assets

Capital assets at June 30, 2014 are comprised of the following:

	Balance June 30, 2013	Additions	Retirements/Transfe	Balance June 30, 2014
Nondepreciable assets:				
Land	$ 35,952,094	$ -	$ -	$ 35,952,094
Construction-in-progress	200,601	251,883	(191)	452,293
Nondepreciable assets	36,152,695	251,883	(191)	36,404,387
Depreciable assets:				
Buildings and building improvements	189,466,186	369,561	(11,541)	189,824,206
Furniture, fixtures and equipment	5,527,597	347,062	-	5,874,659
Total depreciable assets	194,993,783	716,623	(11,541)	195,698,865
Less accumulated depreciation:				
Buildings and building improvements	(61,333,782)	(5,077,880)	6,481	(66,405,181)
Furniture, fixtures and equipment	(2,009,707)	(569,286)	-	(2,578,993)
Total accumulated depreciation	(63,343,489)	(5,647,166)	6,481	(68,984,174)
Depreciable assets, net	131,650,294	(4,930,543)	(5,060)	126,714,691
Total capital assets, net	$ 167,802,989	$ (4,678,660)	$ (5,251)	$ 163,119,078

There was no capitalized interest for fiscal year 2014.

Note 4. Short-Term Obligations

On November 7, 2013, the City refunded the $51,655,000 General Obligation BAN, Series 2011A (Tax-Exempt), the $23,650,000 General Obligation BAN, Series 2011B (Taxable), the $51,655,000 General Obligation BAN, Series 2011A (Tax-Exempt) and the $23,650,000 General Obligation BAN, Series 2011B (Taxable) with a portion of the proceeds of its $130,990,000 General Obligation Capital Improvement and Refunding Bonds, Series 2013A (Tax-Exempt), its $81,715,000 General Obligation Capital Improvement and Refunding Bonds, series 2013B (Taxable) and its $13,600,000 General Obligation Variable Rate Bond, Series 2013C (Taxable). Upon completion of this transaction, all bond anticipation notes have been refinanced into long-term debt.

Note 5. Long -Term Obligations

General obligation bonds: A summary of general obligation bond transactions, including bond anticipation notes, for the fiscal year ended June 30, 2014, follows:

a)

	2014
General obligation bonds outstanding at July 1	$ 73,481,043
Bonds retired/refunded/refinanced	(63,619,279)
Bonds issued/allocated to Fund	132,055,000
Bonds outstanding at June 30	141,916,764
Less Unamortized bond discount	-
Plus Unamortized premium	4,522,121
General obligation bonds outstanding at June 30, adjusted for unamortized premium	146,438,885
Less current portion	(3,235,566)
	$ 143,203,319

Note 5. Long -Term Obligations (Continued)

Parking facilities general obligation bonds outstanding at June 30, 2014, are comprised of the following individual issues:
b)

FY 2014

Bond Issue/Purpose	Dated	Issue Amount	Interest Rate	Parking Facilities General Obligation Bonds Outstanding
Series 2006 New Money	11/15/2006	3,423,520	4.00 - 5.00%	325,132
Series 2009 Refunding	5/21/2009	1,098,420	3.00 - 5.00%	138,622
Series 2010 A & B	1/21/2010	4,526,010	1.75 - 5.96%	3,324,163
Series 2010 E	2/25/2010	5,000,000	2.00 - 4.00%	4,250,000
Series 2010 G Refunding	10/19/2010	199,626	2.50 - 5.00%	197,527
Series 2012 A Refunding	5/30/2012	1,632,184	2.70%	1,626,320
Series 2013 A	11/7/2013	36,740,000	4.00 - 5.00%	36,740,000
Series 2013 B Refunding	11/7/2013	81,715,000	0.28 - 4.96%	81,715,000
Series 2013 D Variable PRB Refunding	11/7/2013	13,600,000	4.22%	13,600,000
Total Parking Facilities General Obligation Bonds				$141,916,764

A summary of the requirement to amortize general obligation bonds outstanding at June 30, 2014, is as follows:
c)

Year Ending, June 30,	Principal	Interest
2015	$ 3,235,566	$ 5,389,364
2016	3,143,075	5,313,354
2017	4,113,450	5,256,301
2018	4,287,306	5,194,297
2019	4,032,711	5,114,935
2020-2024	23,434,519	23,807,079
2025-2029	26,550,137	19,562,347
2030-2034	33,155,000	13,235,768
2035-2039	39,965,000	4,535,666
General Obligation bonds outstanding	$ 141,916,764	$ 87,409,111

Note 5. Long -Term Obligations (Continued)

Revenue bonds: A summary of revenue bond transactions for the fiscal year ended June 30, 2014, follows:
d)

	2014
Revenue bonds outstanding at July 1	$ 79,605,000
Bonds retired	(155,000)
Bonds refunded	(79,450,000)
Bonds issued	-
Bonds outstanding at June 30	-
Less unamortized discount	-
Revenue bonds outstanding at June 30 adjusted for unamortized discount/premium	-
Less current portion	-
	$ -

There are no revenue bonds outstanding at June 30, 2014.

Note 5. Long -Term Obligations (Continued):

On October 2, 2013, the City entered into a Bond Purchase and Loan Agreement with Banc of America Preferred Funding Corporation, under which the City has the ability to issue three separate bonds in the aggregate principal amount of $37,960,000 (collectively, the "Forward Refunding Bonds") to currently refund its outstanding General Obligation Refunding Bonds, Series 2004, General Obligation Capital Improvement and Refunding Bonds, Series 2005 and General Obligation Capital Improvement and Refunding Bonds, Series 2006.

The first of the forward refundings was completed on June 2, 2014, which currently refunded the existing General Obligation Refunding Bonds, Series 2004. By executing the forward refunding, the City achieved $526,194 in net present value savings.

As with the first forward refunding, the City has the ability to terminate the Forward Refunding Agreement without issuing the final Forward Refunding Bonds, and Banc of America is not required to purchase any Forward Refunding Bond unless the City satisfies certain advance conditions specified in the Forward Refunding Agreement.

On October 17, 2013, the City refunded all of its outstanding Parking System Revenue Bonds with General Obligation Bonds, utilizing a portion of the proceeds from its $130,990,000 General Obligation Capital Improvement and Refunding Bonds, Series 2013A (Tax-Exempt), its $81,715,000 General Obligation Capital Improvement and Refunding Bonds, Series 2013B (Taxable) and its $13,600,000 General Obligation Variable Rate Bond, Series 2013C (Taxable). With the Series 2013 Refunding, the Parking System Master Indenture of Trust has been defeased. And the parking division no longer has revenue bonds outstanding.

Interest on the $13,600,000 Variable Obligation Rate Bond, Series 2013D (Taxable) is payable semi-annually on each February 1 and August 1, at an interest rate of LIBOR, plus 0.95%. The first interest payment was February 1,2014.

The City has the ability to terminate the Forward Refunding Agreement without issuing any or all of the Forward Refunding Bonds, and Banc of America is not required to purchase any Forward Refunding Bond unless the City satisfies certain advance conditions specified in the Forward Refunding Agreement.

Bonds authorized and unissued as of June 30, 2014 were approximately $11,910,929.

Subsequent Events-Long-Term Obligations

The Parking Facilities Fund's portion of the $9,915,000 General Obligation Refunding Bonds, Series 2014B issued on October 1, 2014 was $154,674. It was used to defease $153,956 of Parking's General Obligation Capital Improvement and Refunding Bonds, the Series 2006. The refunded bond is considered to be defeased and the liability for the bond has been removed. This transaction was the second forward transaction under the Banc of America agreement described above.

Note 6. Retirement & OPEB Obligations

The Fund contributes to the Employee's Retirement System of the City of Norfolk (the "System"), a single-employer noncontributory defined benefit plan, which is accounted for as a separate Pension Trust Fund. Reference should be made to the Comprehensive Annual Financial Report of the System for further description of the plan. The retirement expense for June 30, 2014 was $491,057.

The City provides post-retirement health care benefits, in accordance with state statutes, which require extending access to healthcare benefits to certain retirees. General City employees are eligible to participate at the earlier of age 55 and 15 years of creditable service or 25 years of creditable service. Employees who retire on accidental disability are also eligible. Retirees that elect to participate may purchase health care coverage using the same health care plans and premium structures available to active employees. Retiree participation, plan/benefit elections and contributions are administered by the City's Retirement Bureau based on the participation guidelines established by the Norfolk City Council. Effective January 1, 2014, the City eliminated health care coverage for post 65 retirees (e.g. retirees eligible for Medicare).

Projections of benefits for financial reporting purposes are based on the plan and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The actuarial valuation was performed as of July 1, 2013 with results projected for the fiscal year ended June 30, 2014.

The City's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with GAAP wherein governments report on an accrual basis, benefit costs related to the period in which benefits are earned rather than to the period of benefit distribution. The ARC represents a level of funding that, if paid on an on-going basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The ARC as computed for the City is allocated to the Fund based on payroll.

The Fund and the City use the pay as you go method to calculate the OPEB liability for June 30, 2014, as the City has not funded a trust for the OPEB liability. Using the most recent OPEB Plan Valuation Date of July 1, 2013, the following table shows the components of the Fund's annual OPEB costs projected for the current fiscal year, the amount contributed to the Plan and the changes in the net OPEB obligation:

	2014
Net beginning OPEB obligation	$ 552,225
Annual required contribution	93,926
Interest on net OPEB obligation	20,009
Adjustment to ARC	(18,581)
Annual OPEB cost	95,354
Less: contributions made	42,412
Increase in net OPEB obligation	52,942
Net ending OPEB obligation	$ 605,167

The total unfunded actuarial accrued liability (UAAL) for 2014 was $930,128 and is allocated to the Fund on the same basis as the ARC. The allocation is based on covered payroll and does not purport to represent the OPEB liability of the Fund on a stand-alone basis. Reference should be made to the Comprehensive Annual Financial Report of the City of Norfolk for further information.

Note 7. Commitments

Commitments for completion of capital projects authorized were approximately $2,022,377 at June 30, 2014.

Note 8. Litigation

From time to time the Fund is a defendant in a number of lawsuits. Although it is not possible to determine the final outcome of these matters, management and the City Attorney are of the opinion that the ultimate liability will not be material and will not have a significant effect on the Fund's financial condition.

Note 9. Risk Management

The Fund is exposed to various risks of loss related to: theft of, damage to, and destruction of assets; injuries to employees; general liability; automobile liability; crime and employee dishonesty; professional liability; and directors' and officers' liability. The Fund's coverage is provided through the City's combination of purchased insurance policies and self-insurance plans. Beginning January 1, 2014, the City became self-insured for health care.

Note 10. Accounting Pronouncements Issued But Not Yet Implemented

The GASB has issued several pronouncements that may impact future financial presentations. Management has not determined what, if any, impact implementation of the following statements will have on the City.

GASB Statement 68: ***Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No.27.*** This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* as well as the requirements of Statement No. 50, *Pension Disclosures,* as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The objective of GASB 68 is to improve accounting and financial reporting by state and local governments for pensions. Governments providing defined benefit pensions will be required to recognize their long-term obligation for pension benefits as a liability and to recognize more pension expense immediately. The Statement also requires revised and new disclosures, and required supplementary information. It also requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the cost-sharing plan. The provisions of Statement 68 are effective for fiscal years beginning after June 15, 2014; however, earlier application is encouraged.

GASB Statement 69: ***Government Combinations and Disposals of Government Operations***. This Statement provides specific accounting and financial reporting guidance for the combination and disposal of entities in a governmental environment. This Statement also enhances the disclosures around these types of activities to improve the usefulness of financial reporting in this area. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2013. Earlier application is encouraged.

GASB Statement 70: ***Accounting and Financial Reporting for Non-exchange Financial Guarantees.*** This Statement requires specific accounting for governments that extend a non-exchange financial guarantee as well as governments that have issued obligations guaranteed in non-exchange transactions. This Statement also specifies the information required to be disclosed in relation to these types of transactions. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2013. Earlier application is encouraged.

Notes to Financial Statements

GASB Statement 71*:* ***Pension Transition for Contributions Made Subsequent to the Measurement Date.*** This statement will eliminate the source of a potentially significant understatement of restated beginning net position and expense in the first year of implementation of GASB 68 in the accrual-basis financial statements of employers and non-employer contributing entities. The provisions of this Statement should be applied with the implementation of GASB 68.

Supplemental Other Post Employment Benefit (OPEB) Information
Schedule of Funding Progress
Parking Facilities Fund
Last Three Fiscal Years
(Unaudited)

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Estimated covered payroll (c)	UAA as a percentage of covered payroll (b-a)/c
July 1, 2013	$ -	930,128	930,128	0%	3,208,269	29.0%
July 1, 2012	$ -	992,504	992,504	0%	2,908,338	34.1%
July 1, 2011	$ -	1,109,800	1,109,800	0%	3,242,816	34.2%

Note:
Data was obtained by OPEB Actuarial Valuation performed by Cheiron.

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Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Honorable Members of the City Council
City of Norfolk, Virginia:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the basic financial statements of the Parking Fund of the City of Norfolk, Virginia (the Fund), which comprise the statement of net position as of June 30, 2014, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the basic financial statements, and have issued our report thereon dated January 29, 2015, which included a paragraph emphasizing that in fiscal year 2014, the Fund adopted new accounting guidance described in Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities.*

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Norfolk, Virginia
January 29, 2015